



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

|               |        |               |  |
|---------------|--------|---------------|--|
| <b>Bill #</b> | SB0398 | <b>Title:</b> | Revise workers' compensation dividend payment laws |
|---------------|--------|---------------|--|

|                         |            |                |               |
|-------------------------|------------|----------------|---------------|
| <b>Primary Sponsor:</b> | Keane, Jim | <b>Status:</b> | As Introduced |
|-------------------------|------------|----------------|---------------|

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

|   | <u>FY 2016<br/>Difference</u> | <u>FY 2017<br/>Difference</u> | <u>FY 2018<br/>Difference</u> | <u>FY 2019<br/>Difference</u> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Expenditures:</b>                    |                               |                               |                               |                               |
| General Fund                            | \$0                           | \$0                           | \$0                           | \$0                           |
| State Special Revenue                   | \$0                           | \$0                           | \$5,000                       | \$0                           |
| Proprietary (06)                        | \$50,000,000                  | \$50,000,000                  | \$5,000                       | \$0                           |
| <b>Revenue:</b>                         |                               |                               |                               |                               |
| General Fund                            | \$0                           | \$0                           | \$0                           | \$0                           |
| State Special Revenue                   | \$0                           | \$0                           | \$5,000                       | \$0                           |
| Proprietary (06)                        | \$0                           | \$0                           | \$5,000                       | \$0                           |
| <b>Net Impact-General Fund Balance:</b> | <u>\$0</u>                    | <u>\$0</u>                    | <u>\$0</u>                    | <u>\$0</u>                    |

**Description of fiscal impact:** SB 398 requires the Montana State Fund to declare and pay a \$50 million dividend in fiscal years 2016 and 2017 if the state fund's equity or surplus is projected to exceed \$375 million in each of those years.

### FISCAL ANALYSIS

#### Assumptions:

#### **Montana State Fund**

1. This bill requires Montana State Fund (MSF) to declare and pay a dividend of at least \$50 million based on whether MSF equity is projected to be more than \$375 million as of June 30, 2016, and to pay another \$50 million dividend based on projected equity of more than \$375 million on June 30, 2017.
2. Based on audited statutory financial statements as of June 30, 2014 (FY14), MSF had equity of \$443.9 million.
3. Projected equity can vary significantly from one quarter to the next because of changes in the unrealized value of equity security investments.

4. Administrative rules and board dividend policy govern the MSF dividend process. Dividends will be distributed to MSF policyholders based upon policy loss experience and outstanding items for individual accounts.
5. After July 1, 2017, the State Auditor is required to review the dividends paid by MSF and recommend whether additional dividends are actuarially justified. MSF will pay the State Auditor \$5,000 for this review.

**State Auditor's Office**

6. This bill requires the State Auditor's Office to determine whether state fund dividends are actuarially justified.
7. The office will contract with an independent actuary.

**Department of Administration**

8. Dividend payments issued to state agencies offset their workers' compensation premium expense. For those agencies receiving a dividend, this legislation would reduce operating expenditures in FY 2016 and FY 2017.
9. Based on the most recent dividend declared by MSF, in the amount of \$20 million, approximately \$600,000 was returned to the state to offset workers' compensation insurance expense.

|   | <b><u>FY 2016<br/>Difference</u></b> | <b><u>FY 2017<br/>Difference</u></b> | <b><u>FY 2018<br/>Difference</u></b> | <b><u>FY 2019<br/>Difference</u></b> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| <b><u>Fiscal Impact:</u></b>  |                                      |                                      |                                      |                                      |
| <b><u>Expenditures:</u></b>   |                                      |                                      |                                      |                                      |
| Operating Expenses - SA   | \$0                                  | \$0                                  | \$5,000                              | \$0                                  |
| Operating Expenses - MSF  | \$50,000,000                         | \$50,000,000                         | \$0                                  | \$0                                  |
| Transfer - MSF  | \$0                                  | \$0                                  | \$5,000                              | \$0                                  |
| <b>TOTAL Expenditures</b>   | <b>\$50,000,000</b>                  | <b>\$50,000,000</b>                  | <b>\$0</b>                           | <b>\$0</b>                           |
| <b><u>Funding of Expenditures:</u></b>  |                                      |                                      |                                      |                                      |
| General Fund (01)   | \$0                                  | \$0                                  | \$0                                  | \$0                                  |
| State Special Revenue (02)  | \$0                                  | \$0                                  | \$5,000                              | \$0                                  |
| Proprietary (06)  | \$50,000,000                         | \$50,000,000                         | \$5,000                              | \$0                                  |
| <b>TOTAL Funding of Exp.</b>  | <b>\$50,000,000</b>                  | <b>\$50,000,000</b>                  | <b>\$10,000</b>                      | <b>\$0</b>                           |
| <b><u>Revenues:</u></b>   |                                      |                                      |                                      |                                      |
| General Fund (01)   | \$0                                  | \$0                                  | \$0                                  | \$0                                  |
| State Special Revenue (02)  | \$0                                  | \$0                                  | \$5,000                              | \$0                                  |
| Proprietary (06)  | \$0                                  | \$0                                  | \$5,000                              | \$0                                  |
| <b>TOTAL Revenues</b>   | <b>\$0</b>                           | <b>\$0</b>                           | <b>\$10,000</b>                      | <b>\$0</b>                           |
| <b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b> |                                      |                                      |                                      |                                      |
| General Fund (01)   | \$0                                  | \$0                                  | \$0                                  | \$0                                  |
| State Special Revenue (02)  | \$0                                  | \$0                                  | \$0                                  | \$0                                  |
| Other   | (\$50,000,000)                       | (\$50,000,000)                       | \$0                                  | \$0                                  |

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Sponsor's Initials\_\_\_\_\_  
Date\_\_\_\_\_  
Budget Director's Initials\_\_\_\_\_  
Date